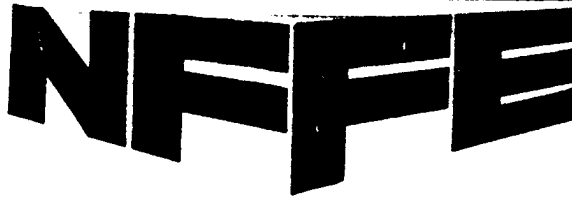


**NATIONAL  
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OF FEDERAL  
EMPLOYEES**



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**STATEMENT BY**

**THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES**

**BEFORE**

**THE SUBCOMMITTEE ON EMPLOYMENT AND HOUSING  
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS**

**ON**

**"CAFETERIA-STYLE" FLEXIBLE BENEFIT PLANS**

**MARCH 1, 1988**

Mr. Chairman and Subcommittee Members:

On behalf of the National Federation of Federal Employees, appreciate this opportunity to appear before the Subcommittee to present our views on flexible employee benefit plans. NFFE represents over 150,000 Federal workers in over 40 agencies across the country. We represent workers in all types of jobs, from professional and technical to crafts and trades.

The concept of flexible benefit programs, also known as "cafeteria-style plans" is a relatively new one. Such plans allow workers to receive a portion of their salaries or wages untaxed, as long as that portion is designated for a specific acceptable benefit, such as child care or health insurance, and it can be proved that the funds were spent on such a benefit. The plans also allow employees to fine tune fringe benefit packages to fit their own personal and family needs.

The cafeteria-style benefits concept is gaining popularity in the private sector where it is seen as a significant tool for the recruitment and retention of quality employees. Thus, we believe that creating such plans for Federal workers is necessary in order for the Federal Government to compete in today's labor market.

For many years now the Federal Government has provided one aspect of flexible benefit plans in the Federal Employees Health Benefits Program. Under FEHB, each employee is free to select from among several health insurance plans according to what suits his or her own needs. The Government pays a large portion of the premium; the exact amount paid for any given plan is determined by applying a formula contained in the enabling legislation. This degree of choice is the program's most positive aspect.

Under the FEHB program, a Federal worker is able to select health insurance plan based on the type of coverage needed and the amount of premium he or she can afford. The program recognizes that workers have different insurance needs and different levels of income, and so can more closely satisfy everyone. This aspect of choice should be extended to all Federal fringe benefits.

The dramatic rise in the number of families with both spouses working outside the home as well as the number of single-parent households requires that employers re-examine the manner in which employees are compensated. Some new benefits such as subsidized child care centers and child care allowances are needed to meet the needs of the modern family.

Furthermore, families need the ability to mix fringe

benefits in order to avoid duplication and assure comprehensive and adequate coverage. For example, if both an employee and his or her spouse are employed outside the home, and both are offered health insurance, usually only one person actually takes the benefit and chooses family coverage. Under a cafeteria-style benefits plan, the employee who does not choose to receive the employer-provided health insurance could select another benefit, such as child care, in order to avoid duplication and still receive the employer's contribution of a certain dollar amount for benefits.

The employers who allow such flexibility will make themselves more attractive in today's labor market which is characterized by high skill levels and high mobility. The Federal Government has allowed itself to fall far behind the private sector in the competition for quality employees. Federal pay is now 24 percent behind the private sector. A recent comparison of Federal and private pay and benefits performed by the Hay Group found that the Federal Government lagged behind in virtually every compensation area. The Government is on the way to becoming the employer of last resort. Action is necessary now to reverse this trend and make the Government once again a leader in employee compensation.

NFFE would support legislation to allow Federal workers to adjust the mix of their fringe benefits. However, the cafeteria's "menu" must be expanded to include such benefits as the following: vision care, long term disability benefits for non-job related injuries or illnesses, dependent care allowances, and deferred compensation, to name a few.

In order for a cafeteria-style benefits program to be approved under the Internal Revenue Code, the employer may not discriminate among employees, i.e. the amount of benefits dollars should not be disproportionately high for higher-salaried employees. Therefore, the dollar amount for benefits must be the same for all workers. Congress should ensure that this amount be set at a sufficient level that no current Federal employees suffer a reduction in benefits.

One of the problems we experience in the FEHB Program is the difficulty in reconciling enrollment between the insurance carrier's records and those of the various Federal payment centers which process payroll and benefits withholdings. The payment centers have been unresponsive in verifying enrollees at our request. The problem will be compounded if a cafeteria-style benefits program is instituted before the payment centers improve their performance. Congress should see that the payments centers are able to handle the additional burdens of this type of benefits program, and make periodic reports to the benefits underwriters.

Finally, we urge that any legislation provide a role for unions holding exclusive recognition and the collective bargaining process.

Mr. Chairman, NFFE commends your interest in establishing flexible benefits programs for Federal workers. We look forward to working with you and other Members of Congress this effort. That concludes my statement. I will be happy to answer any questions.